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THE ROLE OF HOLISTIC OWNER INVOLVEMENT AS A STRATEGY TO IMPROVE FINANCIAL PERFORMANCE

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh likuiditas, leverage, firm size terhadap kinerja keuangan yang dimoderasi oleh holistic owner involvement pada perusahaan LQ 45. Penelitian ini menggunakan data sekunder dari perusahaan LQ 45 yang terdaftar pada Bursa Efek Indonesia pada tahun 2020-2023. Data dianalisis menggunakan regresi data panel menggunakan software eviews 13. Hasil penelitian menyatakan bahwa likuiditas berpengaruh terhadap financial performance. Financial leverage berpengaruh terhadap financial performance. Firm size berpengaruh terhadap financial performance. Holistic owner involvement berpengaruh terhadap financial performance. Holistic owner performance memoderasi pengaruh likuditas terhadap financial performance. Holistic owner performance memoderasi pengaruh financial leverage terhadap financial performance. Holistic owner performance memoderasi pengaruh firm size terhadap financial performance. Penelitian ini mengusung moderasi holistic owner involvement sebagai salah satu strategi dalam meningkatkan financial performance perusahaan yang terdaftar pada Bursa Efek Indonesia. Kajian empiris yang telah ada belum menyelidiki peran holistic owner involvement sebagai moderasi dalam meningkatkan financial performance. Berdasarkan hasil, salah satu strategi dalam meningkatkan financial performance adalah dengan holistic owner involvement di dalam perusahaan.

Kata kunci: Liquidity, Financial Leverage, Firm Size, Holistic Owner Involvement, Financial Performance

ABSTRACT

The objective of this study is to examine the impact of liquidity, financial leverage, and company size on financial performance, with the moderation of holistic owner engagement in LQ45 enterprises. The study utilizes secondary data obtained from LQ45 firms that are publicly traded on the Indonesia Stock Exchange from 2020 to 2023. The data were subjected to panel data regression analysis. The findings suggest that liquidity, financial leverage, business size, and holistic owner participation all have an impact on financial success. In addition, the level of owner engagement has a moderating effect on the impact of liquidity, financial leverage, and firm size on financial performance. This study suggests that adopting a comprehensive approach to owner involvement can be an effective strategy for enhancing the financial performance of companies that are listed on the Indonesia Stock Exchange. Previous empirical research has yet to examine the impact of comprehensive owner engagement as a moderator on enhancing financial success. According to the findings, a successful approach to enhancing financial performance is to have comprehensive owner engagement in the organization.

Key words: Liquidity, Financial Leverage, Firm Size, Holistic Owner Involvement, Financial Performance.

INTRODUCTION

According to a recent study, the financial performance of many companies listed on the Indonesian Stock Exchange is becoming progressively more vulnerable. The COVID-19 pandemic has posed obstacles to corporate recovery due to global economic conditions and vulnerabilities in culture and

legal systems. Alvarez & Marsal (A&M), a global corporation that provides consulting services for strategic planning, determined this information through a study of 360 publicly traded companies. These companies represent 44 per cent of the 813 issuers listed on the Indonesia Stock Exchange (IDX). The study focused on companies in 11 different industrial sectors that had annual revenues above 50 million US dollars. The study assesses the financial performance from 2019 to June 2023, as reported by Kompas in 2024.

While 56 per cent of enterprises have successfully sustained their robust status and prospects, the remaining companies still need to return to their pre-COVID-19 condition. The rate at which corporate health recovers is comparatively sluggish, resulting in a rise in the subset of "zombie companies." Zombie companies that have not fully recovered are classified into three categories: those with distressed status (facing challenges with the company's financial stability and operational effectiveness), those with limited balance sheet resilience, and those with weak balance sheets and profit and loss performance. In the initial year of the 2020 pandemic, the proportion of enterprises experiencing financial difficulties was documented at 19.4 per cent, which represents a rise from 11.9 per cent in 2019. The percentage decreased to 13.3 per cent in 2021. Nevertheless, the percentage of financially troubled enterprises increased to 15.3% in 2022 and remained at 14.2% in the 12 months leading up to June 2023 (Kompas, 2024).

The OJK Press Conference on September 5, 2023, stated that the performance growth of issuers listed on the Indonesia Stock Exchange (IDX) throughout the first semester of 2023 was recorded as a red report card. Most companies experienced a damaging decline in their financial performance. In terms of growth, almost all sectors showed a negative decline. However, several sectors recorded an increase in performance, namely the financial, property, and healthcare sectors. The financial sector occupied the first position with the highest profit, amounting to IDR 105.1 trillion, or dominating 34.1% of the total profit of all issuers. The profit value grew 6.54% year on year (yoy) from the previous semester period.

Meanwhile, the healthcare sector followed with growth of 7.75%, and the property and real estate sectors also grew positively. Despite the stagnation in profit growth, issuers' financial reports are positive. As of September 4, 2023, only one sector recorded a negative financial report, namely the technology sector. In absolute terms, only one sector in the semi-annual financial report was negative, which was technology (CNBC, 2023). Based on this phenomenon, studies on financial performance remain relevant at this time.

Studies on company financial performance have identified that liquidity influences financial performance (Nwokoro et al., 2023; Mennawi, 2020; Rop and Jagongo, 2021; Ogunsola and Ogheneoparobo, 2022). However, other studies have found that liquidity does not influence financial performance (Dahiyat et al., 2021; Harsono, 2024). Similarly, some studies have identified that financial leverage influences financial performance (Fitriyah et al., 2021; Mennawi, 2020; Arhinful, 2023; Danso et al., 2021), while other studies have found that financial leverage does not influence financial performance (Dirman, 2020; Abubakar, 2020). Furthermore, studies on company financial performance have identified that firm size influences financial performance (Wati et al., 2023). Conversely, other studies have found that firm size does not influence financial performance (Egbuhuzor and Wokeh, 2022; Kiruga et al., 2024; Khairunnisa et al., 2022).

Based on the inconsistencies in the study results on the influence of liquidity, financial leverage, and firm size on financial performance, holistic owner involvement is proposed as a mediating variable that can improve a company's financial performance. Holistic owner involvement refers to the engagement of the company owner (commissioner) as a board member who considers the thoughts and behaviours of the company's

stakeholders comprehensively in the business processes. It is hoped that holistic owner involvement can improve the company's financial performance.

Empirical studies have yet to examine the role of holistic owner involvement as a moderator that can improve (strengthen) financial performance. Instead, these studies primarily examine the influence of an independent board of commissioners in maximizing company wealth through their supervisory function (Zaitul et al., 2019; Utama and Utama, 2019; Makaryanawati et al., 2019). The results of this study are expected to reinforce agency theory. An agency relationship is a working relationship where one or more people, as shareholders (principals), appoint another party (agent) to provide services and make decisions on behalf of the principal (Jensen and Meckling, 1976).

THEORETICAL REVIEW

Stakeholder Theory

Freeman (1999) states that businesses have a responsibility to various stakeholders, in-cluding shareholders, employees, suppliers, government, and society. These stakeholders are interconnected, forming the foundation of the business (Freeman, 1999). Andriof and Waddock (2017) use a wheel analogy with the company at the centre and stakeholders as spoke persons, underscoring the crucial need for constant interaction. By under-standing needs, interests, and feedback, company stakeholders can make decisions that create value for all stakeholders, ulti-mately maximizing long-term value (Jones and Seara, 2020).

Agency Theory

Jensen and Meckling (1976) state that agency problems are a conflict of interest inherent in any relationship where one party is expected to act in the best interests of another. In corporate finance, agency problems usually refer to a conflict of interest between a company's management and its shareholders. Managers, acting as agents for shareholders (principals), are supposed to make decisions that will maximize shareholder wealth, even though it is in the managers' best interest to maximize their wealth. It is hoped that by including shareholders as members of the company's board of directors, conflicts of interest between the principal and agent can be minimized, resulting in improved company performance, particularly financial performance (Jensen and Meckling, 1976).

Liquidity and Financial Performance

Literature studies demonstrate a significant level of interest in the management of liquidity and solvency. Several theories connect liquidity management and its effects on performance, including shift ability theory, commercial lending theory, and expected earnings theory. A liquidity management strategy refers to a systematic approach adopted by a corporation to fulfil its immediate financial obligations without suffering substantial losses. The fact entails the management of assets, such as cash, to fulfil all commitments, encompass all expenses, and uphold financial stability. For organizations with high levels of leverage, strategies for managing liquidity involve implementing steps to minimize the difference between the amount of cash on hand and the amount of debt that needs to be repaid (Dahiyat et al., 2021).

Myers and Majluf (1984) created a renowned theory that demonstrates a negative correlation between liquidity, solvency, and performance in the context of liquidity and solvency management. The pecking order hypothesis, often known as the pecking order model, suggests that the costs of financeing rise when there is a lack of symmetry in information. Financing is derived from three primary sources: internal money, loans, and fresh stock. The corporation places its financing sources in order of priority, starting with internal finance, followed by debt, and, as a final option, issuing fresh shares.

Consequently, internal financing takes precedence, and if it is depleted, debt is utilized. Equity is issued when there is no

longer a rational justification for issuing debt. According to this theory, businesses follow a hierarchy of financing sources and prioritize internal financing wherever it is possible. If there is a need for external funding, it is preferable to use debt rather than equity, as issuing shares would involve introducing external ownership into the organization. Therefore, the type of debt that a company selects might serve as an indication of its requirement for external financial debt (Dahiyat et al., 2021).

Several studies relate liquidity ratios and solvency ratios to financial performance. Nwokoro et al. (2023) found a strong positive relationship between liquidity management and efficient financial performance in terms of return on equity. The connection underscores the need for efficient liquidity management in Nigeria's banking industry to maximize profit levels while remaining liquid. Dahiyat et al. (2021) found a statistically significant influence of liquidity and solvency management variables, as well as firm size, on financial performance. However, detailed hypothesis results found that liquidity has an opposite, insignificant influence on financial performance.

In contrast, firm (company) size has a significant favourable influence, while solvency has a significant negative influence on financial performance. The study suggests increasing investment in company assets and focusing on internal financing, as large companies with low leverage tend to perform well. Harsono (2024) also found that liquidity has no significant effect on financial performance. Based on the inconsistencies in the study results, the following hypothesis is proposed:

H_1: Liquidity has a positive and significant effect on financial performance.

Financial Leverage and Financial Performance

Leverage in financial markets occurs when a borrower uses borrowed funds to purchase an asset and expects a return more significant than the cost of the loan itself (Adenugba et al., 2016). Therefore, financial leverage is an investment strategy that drives business expansion and growth. Financial leverage involves borrowing debt to expand one's asset base, providing a way to achieve a higher rate of return on invested money (Demiraj et al., 2023). However, excessive financial leverage increases the risk of failure as servicing the loan becomes more challenging. The debt-to-assets ratio is a valuable indicator of a company's borrowing capacity, measuring total debt as a ratio of total assets.

The debt-to-assets ratio is a standard indicator of financial leverage. Financial leverage is beneficial when interest payments are smaller than the profits generated from using the debt (Parinduri et al., 2019). Instead of issuing new equity, which could dilute the value of current shareholders' holdings, many companies prefer to use financial leverage (Arhinful, 2023). Debt financing is most advantageous when a company expects stable cash flow, making debt budgeting easier for repayment.

Cash flow stability is standard in markets with few competitors, high barriers to entry, and minimal disruptive product innovations. There are two main benefits of using financial leverage. First, it can increase a company's profit margin (Daruwala, 2023). Second, interest costs are tax-deductible, reducing the borrower's debt costs (Cole, 2017). However, financial leverage also carries a disproportionate risk of loss, as the interest burden can become prohibitive if the borrower cannot generate sufficient profits to cover it. This risk becomes severe when interest rates rise or asset yields fall. Investors considering taking on debt to increase asset purchases face a similar dilemma. If the market price of securities falls and the lender demands repayment, an investor could lose all their money.

Several studies relate financial leverage to financial performance. Fitriyah et al. (2021) state that financial leverage influences the financial performance of retail companies listed on the Indonesia Stock Exchange.

However, Mennawi (2020) found that financial leverage does not influence the financial performance of Islamic banks in Sudan. Based on the inconsistencies in the study results, the following hypothesis is proposed:

H_2: Financial leverage has a positive and significant effect on financial performance.

Firm Size and Financial Performance

One of the factors that influences a company's financial performance is its size (Subramaniam and Wasiuzzaman, 2019). Firm size can be classified in various ways, including total assets, log size, stock market value, and others. Firm size indicates how significant the company's influence is in achieving performance. Firm size can be measured by the increase or decrease in its assets, with total assets being a standard metric. The greater the total assets, the larger the company. Larger companies have more significant opportunities to obtain funds, but this does not rule out the possibility that small companies can also access financing sources easily, as they are more flexible and incur fewer costs.

Previous studies have shown that firm size influences Return on Assets (ROA). Financial performance describes the economic results a company can achieve over a certain period through its activities (Osinski et al., 2017). Financial performance can be measured through the analysis of financial data reflected in financial reports. Firm size also influences company performance, as the size of the assets owned projects it. Good management of significant company assets positively influences company performance.

Additionally, firm size plays a dynamic role in introducing new products or services. Large companies can quickly expand their business due to better resources compared to smaller ones. Small companies may be proficient in the construction and operations areas in which they work (Ullah et al., 2020).

Several studies relate firm size to financial performance. Wati et al. (2023) state that firm size influences financial performance. However, other studies have found that firm size does not influence financial performance (Egbuhuzor and Wokeh, 2022; Kiruga et al., 2024; Khairunnisa et al., 2022). Based on the inconsistencies in the study results, the following hypothesis is proposed:

H_3: Firm size has a positive and significant effect on financial performance.

Holistic Owner Involvement and Financial Performance

The owner's level of involvement in the company's strategy depends on their abilities and knowledge. Inefficient owner involvement is a significant factor that harms the interests of capital markets and investor confidence (Arora, 2024). Wan Mohammad et al. (2017) believe that the involvement of the owner or board of commissioners in strategic decision-making is often insufficient, as they primarily act in a supervisory capacity. The primary role of the Board of Commissioners is to monitor the actions of the Board of Directors. To date, only Arora (2024) has examined board involvement in company performance in countries adhering to the Anglo-Saxon system. They measure board involvement using variables such as board shareholdings, board meetings, board size, CEO duality, and CEO as promoter. However, studies on this matter still need to be more comprehensive to test the influence of the involvement of the Board of Commissioners when measured by their direct responsibility as directors of the company. This study aims to examine the influence of owner involvement as a director on the company holistically.

Utama and Utama (2019) state that the size of the board of commissioners increases company performance up to a certain level. However, a board that is too large can reduce company performance. Furthermore, the ownership structure has an indirect but not very strong influence on company performance. Additionally, company performance does not influence board size as the ownership structure increases. Conversely, if the difference between control and ownership

rights increases, the negative influence of board size on company performance strengthens marginally. Thus, the study contributes to the understanding that the negative influence of board size on company performance tends to occur in companies with majority shareholders who have high incentives to expropriate resources to improve financial performance.

According to Fahmi (2021), financial performance is an analysis carried out to determine the extent to which a company has implemented accurate and correct financial practices, such as creating financial reports that reflect Good Corporate Governance mechanisms and Management of Company Financial Profits that meet the standards and provisions in IFRS (International et al.) or GAAP (Generally Accepted Accounting Principles). Thus, financial performance is a description of the company's financial condition over a certain period. Its function is to measure the success of a company by focusing on financial reports. Based on this description, the following hypotheses are proposed:

H_4: Holistic owner involvement moderates the effect of liquidity on financial performance.
H_5: Holistic owner involvement moderates the effect of financial leverage on financial performance.
H_6: Holistic owner involvement moderates the effect of firm size on financial performance.

RESEARCH METHOD

Research Framework

Following the completion of appropriate theoretical and empirical studies, the variables that were chosen were identified and taken into account to construct the research framework. The study's conceptual framework model is illustrated in Figure 1. This study examines the impact of liquidity, financial leverage, business size, and holistic owner engagement as a moderating variable to enhance the originality of the research. The aim is to enhance financial performance by increasing comprehensive owner engagement.

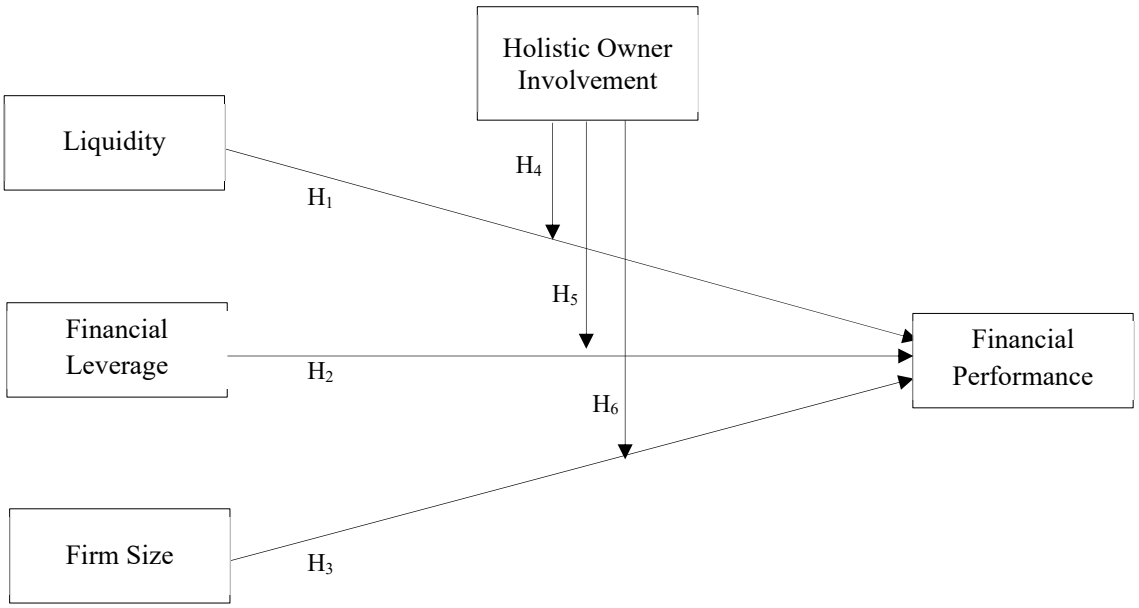

Figure 1
Hypothesis Conceptual Framework

Source: processed by researchers in 2024

Population and Sample

This study is explanatory and aimed at analyzing hypotheses and determining the relationships between variables. The study was conducted on companies listed on the Indonesian Stock Exchange and indexed by LQ45, using financial report data from the Indonesian Stock Exchange website for the 2020-2023 period. The population for this study was selected using a purposive sampling method with the following criteria: (1) LQ45 indexed companies; (2) LQ45 indexed companies that did not leave or enter the index during the observation period and have annual reports for four years, from 2020 to 2023; (3) LQ45 indexed companies that distributed dividends in each observation period, from 2020 to 2023. Companies that meet these sample criteria total 20 LQ45 indexed companies.

Measurements

In this study, financial performance is measured using Return on Assets (ROA) (Han and Chen, 2018; Velnampy et al., 2014; Sumani and Roziq, 2020). Liquidity is measured using the current ratio (Sumani and Roziq, 2020). Financial leverage is measured using the debt-to-equity ratio (Arhinful and Radmehr, 2023). Firm size is measured using the log of total assets (Isik et al., 2017; Pattitoni et al., 2014). Holistic owner involvement is measured by shareholder involvement in management as a member of the board of directors.

Data Analysis

The data analysis was performed using Eviews 13, employing panel data moderated regression analysis techniques. According to Aljandali and Tatahi (2018), panel data model selection has three types: common effect, fixed effect, and random effect. The choice between the fixed effect model and the standard effect model is determined through the use of the Chow Test. Once the fixed effect model is chosen, the Hausman test is employed to determine whether to choose the fixed effect model or the random effect model. If the fixed effect model is chosen as the preferable model after both tests, there is no need to do the Lagrange Multiplier Test. If the Hausman Test indicates the selection of the random effect model, the Lagrange Multiplier test is required to determine the choice between the random effect and standard effect models.

The regression equation in this study is as follows:

$$Y=a+b1LIQ+b2FL+b3FS+b4LIQ*HOI+b5FL*HOI+b6FS*HOI+e$$

Where:

FP = Financial Performance (ROA)
a = Constant
LIQ = Liquidity (CR)
FL = Financial Leverage (DER)
FS = Firm Size (LN Total Assets)
HOI = Holistic Owner Involvement
LIQ*HOI= Moderation 1
FL*HOI = Moderation 2
FS*HOI = Moderation 3
b1, b2, b3, b4, b5, b6 =Regression Coefficients
e = Error Measurement

Model Fit Test

The model fit test can be conducted using the F-test for fixed effect significance, the Lagrange Multiplier test for random effect significance, and the Hausman test to determine fixed effect and random effect significances.

Classical Assumption Tests

Classical assumption tests must be conducted to ensure that the regression equation obtained has good estimation accuracy, is not biased, and is consistent. These tests include the Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test. If the model test results are random effects, normality, multicollinearity, and heteroscedasticity tests are necessary. If the model test results are common effects or fixed effects, multicollinearity and heteroscedasticity tests are necessary (Muchson, 2017).

Hypothesis Test

Hypothesis testing uses the p-value method. If the p-value is less than 0.05 ($p<0.05$), the hypothesis is accepted; otherwise, it is rejected (Hair et al., 2019).

Moderator Analysis

Moderation describes a situation where the relationship between two constructs is not constant but depends on the value of a third variable, referred to as the moderating variable (Hair et al., 2019). The interaction test with Eviews 13 is used to evaluate the nature of moderation. Hair et al. (2019) state that moderation variables can be grouped into several types and criteria as follows: 1) Pure Moderation Variable, if the coefficient value of the direct influence is not significant and the interaction variable is significant, then the moderation type is classified as pure moderation; 2) Pseudo Moderation Variable, if the coefficient value of the direct influence is significant and the interaction variable is significant, then the moderation type is classified as pseudo moderation; 3) Potential Moderation Variable, if the coefficient value of the direct influence is not significant and the interaction variable is not significant, then the moderation type is classified as potential moderation.

ANALYSIS AND DISCUSSION

Characteristics of Population

This study's population consists of LQ45 companies listed on the Indonesia Stock Exchange from 2020 to 2023. These companies span various sectors, including banking, mining, retail, and consumer goods.

Model Fit Test Results

Based on the three model tests used—namely the Chow test, Hausman test, and Lagrange Multiplier test—the following results were obtained:

Chow Test Results (Common et al. Model)

The Chow test results can be seen in the following Table 1.

The testing criteria are as follows: If the probability is more significant than 0.05, then the Common Effect Model (CEM) is accepted; conversely, if the probability is less than 0.05, then the Fixed Effect Model (FEM) is accepted. In this case, the test results indicate that the probability of Cross-section F is 0.0000, which is less than 0.05. Therefore, the model is FEM.

Hausman Test Results (Fixed Effect Model VS Random Effect Model)

The Hausman test results can be seen in the following Table 2.

The testing criteria are as follows: If the probability is more significant than 0.05, then the Random Effect Model (REM) is accepted; conversely, if the probability is less than 0.05, then the Fixed Effect Model (FEM) is accepted. In this case, the test results indicate that the probability of the random cross-section is 0.3316, which is greater than 0.05. Therefore, the model is REM.

Table 1
Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Cross-section fixed effects test			
Effects Test	Statistics	d.f.	Prob.
Cross-section F	3324.558391	(19.57)	0.0000
Chi-square cross-section	560.910545	19	0.0000

Source: Processed Secondary Data (2024)

Table 2
Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Cross-section random effects test			
Test Summary	Chi-Sq. Statistics	Chi-Sq. d.f.	Prob.
Random cross-section	3.417967	3	0.3316

Source: Processed Secondary Data (2024)

Table 3.
Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects			
Null hypothesis: No effects			
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives			
	Test Hypothesis		
	Cross-section	**Time**	**Both**
Breusch-Pagan	113.3996	1.964676	115.3643
	(0.0000)	(0.1610)	(0.0000)
Honda	10.64893	-1.401669	6.538798
	(0.0000)	(0.9195)	(0.0000)
King-Wu	10.64893	-1.401669	2.629777
	(0.0000)	(0.9195)	(0.0043)
Standardized Honda	11.74566	-1.211151	4.014759
	(0.0000)	(0.8871)	(0.0000)
Standardized King-Wu	11.74566	-1.211151	0.473760
	(0.0000)	(0.8871)	(0.3178)
Gourieroux, et al.	--	--	113.3996
			(0.0000)

Source: Processed Secondary Data (2024)

Lagrange Multiplier Test Results (Common et al. Model)

The Lagrange Multiplier test results can be seen in the following Table 3.

The testing criteria are as follows: If the probability is more significant than 0.05, then the Common Effect Model (CEM) is accepted; conversely, if the probability is less than 0.05, then the Random Effect Model (REM) is accepted. In this case, the test results indicate that the probability of Breusch-Pagan is 0.0000, which is less than 0.05. Therefore, the model is REM.

Model Selection Matrix

The following is the research model selection matrix. Table 4 shows that the selected model is the Random Effect Model (REM).

Table 4
Model Selection Matrix

Test	**CEM**	**FEM**	**REM**	**KET**
Chow Test		X		FEM
Lagrange test			X	REM
Housman Test			X	REM

Source: Processed Secondary Data (2024)

Classical Assumption Test Result

Since the selected model is the Random Effect Model (REM), the classical assumption tests that need to be conducted are the normality test and the multicollinearity test (Cooper and Schindler, 2017).

Normality Test Results

The normality test results can be seen in the following Figure 2.

According to Aljandali and Tatahi (2018), if the probability of Jarque-Bera is more significant than 0.05, then the data are typically distributed; conversely, if it is less than 0.05, then the data are not normally distributed. From Figure 2, it can be concluded that the data are typically distributed.

Multicollinearity Test Results

The multicollinearity test results can be seen in the following Table 5.

If the correlation value between variables is less than 0.9, then multicollinearity does not occur; if it is more significant than 0.9, multicollinearity occurs. From the table, it can be concluded that there is no multicollinearity among the research variables, namely liquidity, financial leverage, and firm size.

Hypothesis Test Results

The hypothesis test results can be seen in the following Table 6.

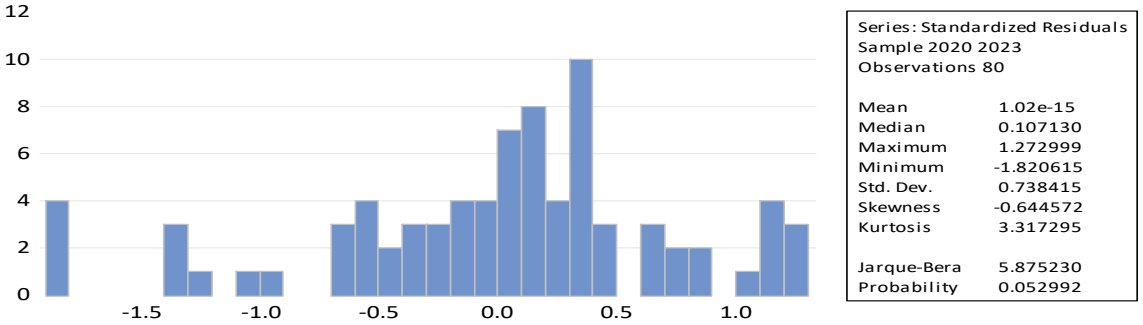

Figure 2
Normality Test Results

Source: Processed Secondary Data (2024)

Table 5
Multicollinearity Test Results

	LIQ	FL	FS
LIQ	1,000000	0.337886	0.182617
FL	0.337886	1,000000	0.104907
FS	0.182617	0.104907	1,000000

Source: Secondary Data Processed (2024)

Table 6
Hypothesis Test Results

Hypothesis	Effect	Coefficient	t-statistic	P-Value	Results
1	CR -→ROA	-1.328134	-1.989942	0.0323	Influential
2	DER -→ROA	0.944394	5.072621	0.0000	Influential
3	LogTA -→ROA	0.099129	2.053113	0.0450	Influential
4	CR*HOI (Moderation 1)	3.503618	4.327342	0.0000	Influential
5	DER*HOI (Moderation 2)	2.723982	2.339676	0.0221	Influential
6	LogTA*HOI (Moderation 3)	1.505017	1.248478	0.2159	Not influential

Source: Secondary Data Processed (2024)

Moderator Analysis Results

The results of the regression test indicate that holistic owner involvement has a positive and significant influence on financial performance. Table 6 shows that the interaction of holistic owner involvement with the current ratio and debt-to-equity ratio is significant, suggesting a nature of moderation referred to as pseudo-moderation.

Discussion

The Influence of Liquidity on Financial Performance

The results of the hypothesis test suggest that liquidity has a favourable and substantial impact on financial performance. Dewi (2017) states that the current ratio's industry standard is 200% or two times. If it surpasses 200% or is double the amount, it is seen as advantageous; conversely, if it drops below 200% or is less than double the amount, it is regarded as disadvantageous. The examination of the capital adequacy ratio (CAR) of LQ45 firms listed on the IDX revealed that all companies had a current ratio value ranging from 100% to 200%, with one company even achieving a current ratio of 400%. Therefore, it can be deduced that all samples exhibit a favourable current ratio, which is one of the characteristics that affect the impact of liquidity on financial performance.

The current ratio, as part of the liquidity ratio, is a metric used to assess a company's capability to fulfil its short-term obligations or settle its short-term debts, including those due within the following year. A current ratio that falls below the average indicates higher risk, possibly stemming from financial challenges or the looming threat of bankruptcy for the company. Conversely, an excessively high current ratio indicates inefficient asset utilization by management. The results of this hypothesis test align with previous studies by Nwokoro et al. (2023), Mennawi (2020), Rop and Jagongo (2021), and Ogunsola and Ogheneoparobo (2022), which have demonstrated that liquidity indeed influences financial performance.

The Effect of Financial Leverage on Financial Performance

The results of the hypothesis test reveal that financial leverage exerts a favourable and statistically significant impact on financial performance. A debt-to-equity ratio value of 1 or 100% indicates a sound financial state for the organization. If the firm fails to fulfil its responsibilities, its equity can be used to pay off the debts. The company gives investors the chance to recover their investments by selling the company's stock. Nevertheless, the rights of new investors are inferior to those of debt suppliers and preferred share owners. A debt-to-equity ratio over 1 or 100% implies that the company's financial position necessitates vigilant supervision. The safety of the situation is primarily contingent upon the origin of the company's debt. If a company's debt-to-equity ratio exceeds 2 or 200%, it signifies that the company's financial state is highly susceptible to many threats. Frequently, such circumstances are witnessed on the Indonesian stock exchange (ocbc.id, 2023).

For investors and lenders, a high debt-to-equity ratio may imply that the business carries risk but also has the potential to generate substantial revenues, enabling it to repay its debts. Conversely, a low debt-to-equity ratio indicates that the company is experiencing losses that surpass its total equity. Analysis of the debt-equity ratio of LQ45 companies listed on the IDX revealed that, generally, 18 companies had debt-equity ratios falling below 200%, while two companies had ratios exceeding 200%. According to the British Business Bank, a favourable debt-to-equity ratio typically falls within the range of 1 to 1.5. However, this value may vary depending on the industry, as some sectors rely more on debt financing than others. The results of this hypothesis test align with previous studies by Fitriyah et al. (2021), Mennawi (2020), Arhinful (2023), and Danso et al. (2021), which have demonstrated that financial leverage indeed influences financial performance.

The Influence of Firm Size on Financial Performance

The hypothesis test results indicate that firm size has a positive and significant influence on financial performance. According to Brigham and Houston (2015), firm size denotes the scale of a company, which can be classified in various ways, such as total income, total assets, and total equity. Similarly, Dharma et al. (2020) define firm size as the magnitude of a company, typically measured by total assets or represented by the logarithmic value of total assets. Firm size serves as a reflection of the total assets owned by the company. A larger firm size implies more significant assets and resources at its disposal, facilitating operational activities and optimizing overall performance.

The analysis of 20 LQ45 companies listed on the IDX reveals that the LN value of total assets falls within the range of 15-22, indicating large firm sizes. Generally, investors favour investing in companies with substantial firm sizes. However, the results of this hypothesis test contradict previous studies by Egbuhuzor and Wokeh (2022), Kiruga et al. (2024), and Khairunnisa et al. (2022), which have demonstrated that firm size has no significant influence on financial performance.

The Role of Holistic Owner Involvement Moderation in Strengthening Financial Performance

The interaction test results indicate that holistic owner involvement moderates the influence of liquidity and financial leverage on financial performance but does not moderate the influence of firm size on financial performance. The results of the analysis show that of the 20 LQ45 companies on the Indonesia Stock Exchange, there are three companies (15%) where the owners are not involved on the board of directors. The search results also show that there are ten companies with a return on assets above 5%. It can be concluded that the involvement of the owner as a board of directors can increase the return on assets (financial performance). Decisions regarding the company's liquidity and solvency can be made more carefully.

It is noteworthy that inefficient owner involvement poses a significant risk to capital markets and investor confidence (Arora, 2024). Wan Mohammad et al. (2017) suggest that owners or boards of commissioners often need more involvement in strategic decision-making, functioning merely as overseers. The holistic involvement of owners has demonstrated its efficacy in improving the relationship between liquidity, financial leverage, and financial performance. However, it may not strengthen the relationship between firm size and financial performance.

CONCLUSION AND SUGGESTIONS

This research has certain limitations that should be considered. Not all firm owners possess direct decision-making authority. In the case of state-owned companies, decisions made by the owner must have permission from the Minister of State-Owned Affairs. This requirement needs to improve the effectiveness of the decisions made. Subsequent investigations could endeavour to analyze other nations or the distinction between publicly traded corporations that are not government-owned and those that are government-owned.

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